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Joint Legislative Audit and Review Committee (JLARC)

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December 30, 2002

MEMORANDUM

TO: Members of the Joint Legislative Audit and Review Committee

FROM: Linda Byers, Research Analyst

RE: **Follow-Up on JLARC's Unemployment Insurance Call Center Study**

The Employment Security Department administers Washington's unemployment insurance (UI) program. This is a program that provides income to workers who become unemployed through no fault of their own.

In 1998, the Employment Security Department approached the Legislature with a proposal to allow workers to file for UI benefits by telephone or by other methods such as using the Internet rather than by applying in person at a local office. The Legislature authorized this change to a centralized call center approach; the Legislature also directed JLARC to review the results of this change. The JLARC report was completed in September 2001. It included recommendations to the Department in the following five areas:

1. Cost containment in call center operations;
2. Call center decision timeliness and quality;
3. Fraud detection and collection of UI benefit overpayments;
4. Use of UI administrative tax dollars in the WorkSource centers; and
5. Reemployment requirements and job search monitoring.

Workload at the call centers has increased substantially since JLARC's review of operations due to the sustained high unemployment situation. The Employment Security Department completed a status report in May 2002 on its progress in implementing the JLARC recommendations and has now submitted its report for December 2002. Some key points from these submissions are summarized below.

JLARC Recommendation 1: Cost Containment in the Call Centers

The JLARC review revealed that the switch to call centers had not yielded the cost savings that the Department had projected. One of the main reasons for this was a major increase in telecommunications costs that the Department had not anticipated. These telecommunications costs included foreign language translation services and costs to operate the call center toll-free telephone numbers.

The Department has taken several steps to address call center costs, for example:

- As part of a new multi-agency interpreter services contract, telephone interpreter translation costs have been reduced from the \$2 to \$3 per minute charge at the time of the JLARC study to an October 2002 rate of \$1.42 per minute for any language.

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- The Department has been successful in its recruitment of bilingual agents to work in the call centers, which reduces the need to use the telephone interpreter services contract. The agency indicates it now has 85 bilingual agents, including 53 who speak Spanish, 11 who speak Russian, and 11 who speak Vietnamese (the three most requested languages). The Department also experimented with a pilot program in the Spokane call center to hire office assistants who can act as part-time translators. Due to the success of the pilot in reducing use of the language line interpreter services, the Department plans to begin using office assistant interpreters in all three call centers by the end of December 2002.
- Employment Security has also been successful in its efforts to promote the filing of initial claims using the Internet. The Department reports that Internet initial claims filing has increased from 12.2 percent of claims in FY 2001 up to 29.5 percent in FY 2002. Internet filing reduces the use of the agency's toll-free numbers. The Department estimates it avoided roughly \$38,500 in toll-free line charges between October 2001 and September 2002 because filers who would have used the toll-free numbers filed via the Internet instead.

The Department's December 2002 follow-up material identifies other process and technology improvements targeted toward more efficient use of staff in the call centers.

JLARC Recommendation 2: Decision Timeliness and Quality

Employment Security continues to struggle with meeting some of the Federal timeliness and quality targets, exacerbated by the high volume of claims. The Department's follow-up material provides detail on several efforts that the agency has underway to improve its performance as part of its implementation of a multi-year quality improvement plan. The Department is meeting the Federal timeliness standard for Internet initial claims filings. The Legislature and the business and labor communities will be able to track the agency's progress in this area since regular performance reporting is required by the U.S. Department of Labor.

JLARC Recommendation 3: Fraud Detection/Collection of UI Benefit Overpayments

The JLARC study noted that Employment Security has new tools available to it now for detecting fraudulent applications for UI benefits that were not available when claims were taken in the Job Service Centers. We also noted that the Department had taken additional steps to improve collection of UI benefit overpayments. JLARC recommended that the Department monitor and report on the impact of the use of its existing and new tools for fraud detection as well as its efforts to collect overpayments.

The Department's follow-up material reports on both of these subjects. During the last legislative session, the agency was not successful in securing a portion of the interest charged to overpayments as a fund source to use a new Social Security cross-match tool. This is a tool that flags claims where a person may be trying to hide his or her identity or cases where a person has stolen another person's identity and is attempting to commit fraud. In the fall of 2002, the Department's Office of Special Investigations made the decision to reduce other on-going fraud detection and prevention efforts in order to reassign investigators to cases identified by the new Social Security cross-match tool. The Office of Special Investigations reports that it prevented 499 cases of misuse of Social Security numbers in October and November 2002, the first months of using the tool. The Office estimates that use of this tool could prevent \$10 million in benefits from being overpaid annually, with this calculation based on the assumption that undetected fraudulent claimers would collect full benefits. The Department indicates that its top budget priority in the upcoming session is to secure funding for the use of this fraud detection tool.

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The Department's follow-up material also reports on its current efforts and proposed future efforts to collect UI benefit overpayments. The agency has provided a timeline that shows, by month, the total dollars recovered through its overpayment collection efforts from 1998 through October 2002. The amount recovered each year continues to increase, for example, from \$1,023,226 in January 1998 to \$2,188,410 in January 2002.

JLARC Recommendation 4: Use of UI Administrative Tax Dollars in the WorkSource Centers

Another reason that the transition to call centers did not result in the expected cost savings was that a portion of UI administrative tax dollars remained in the WorkSource Centers (where people had filed applications before the transition to call centers). These dollars were being used to fund a portion of management FTEs in the WorkSource Centers as a "proxy" for continuing UI work undertaken in these offices. The JLARC report asked the Department to re-think this expenditure on managers, with the concern that it was not clear that UI administrative tax dollars were indeed being spent to deliver UI services, as required by law.

The Department concurred that expenditures of UI funds by the WorkSource Operations Division should be clearly related to UI services. In its May status report, the agency reported that, beginning October 1, 2001, the UI funds were being used for direct UI services to claimants delivered at the line staff level. We asked for additional detail on the implementation of this recommendation for the December 2002 report. The Department included a list of specific UI-related tasks being performed now in the WorkSource Centers, including helping claimants understand how to use the call centers and Internet filing tools, and providing general information on UI eligibility requirements. UI-funded staff also promote the use of Internet claims filing. The Department provided a table showing the expenditures under the old "proxy" system and the new front-line delivery system, by local office. This implementation of the JLARC recommendation will make it easier to monitor and audit that these UI administrative tax dollars are being used for UI purposes.

JLARC Recommendation 5: Reemployment Requirements and Job Search Monitoring

The legislation that called for the JLARC study also expressed the Legislature's concern that the switch to call centers could reduce the probability that claimants would use reemployment services since they would no longer go to the local offices to file for benefits. To help maintain the link to reemployment services, the Legislature directed the Department to implement a job search monitoring program (now codified at RCW 50. 20.240).

The JLARC study found that, although a sample of claimants was selected for job search review interviews each month, information from these reviews was not routinely assembled or reviewed by management. JLARC recommended that the Department fully implement and enforce the reemployment activities required of UI benefit recipients, and that the Department regularly monitor and report on compliance and enforcement in this area.

In response, the Department has created a job search monitoring report, which the Department reports is run and reviewed by management monthly. This report does provide information not readily available previously on the number of claimants eligible for a job search review, the number of claimants selected for such a review, the number scheduled for an interview, and the number of job search review interviews actually conducted. The Department is also providing a report that shows what happens to a person's claim if that person does not show up for a scheduled interview and is not otherwise excused. However, it is not possible to tell from these job search monitoring reports whether the claimants who are interviewed are meeting the job search requirements. Legislative policy committees interested in this subject may wish to review the current reporting to see if it accomplishes the intent of the 1998 legislative directive.

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Other UI-Related Issues Ahead

Two pending issues may have an impact on call center and other UI operations in the near future:

- **Extended Benefits** – With Washington's high unemployment rate, unemployed workers have been receiving benefits through a Federal Temporary Emergency Unemployment Compensation program. These extended benefits expire December 28. It is possible that Congress will act to extend this program when it reconvenes in January. Meanwhile, workers may be eligible for a state extended benefits program. The state program offers fewer weeks of coverage than the Federal one (a maximum of nine weeks rather than 26 weeks), and the two programs are funded differently (the Federal program uses 100 percent Federal dollars while the state program is 50 percent Federal funds/50 percent state trust fund dollars). If Congress acts early in the year, claimants may be transferring from the state program to the Federal one. While the decision of the Federal government about offering another extension of UI benefits is important for unemployed workers in Washington as a whole and the state's trust fund balance, it will also have an impact on UI call center and central office operations.
- **New Funding Allocation** – The U.S. Department of Labor has recently released a new method of allocating UI administrative dollars to the states. The Department reports that, under the new methodology, it sees a \$14 million shortfall as compared to FY 2001 actual costs. The Department has challenged the Department of Labor on implementation of the new funding allocation model, while all of the state employment security agencies continue to operate under a continuing resolution. Employment Security indicates it is taking steps now in anticipation of this budget reduction, for example, by not filling vacancies. If the new formula is implemented, there will have to be further reductions in both the UI benefit and tax programs, including call center operations.

If you would like to see the complete follow-up report on the call center study submitted by the Department of Employment Security, please contact me at (360) 786-5183 or byers_li@leg.wa.gov.